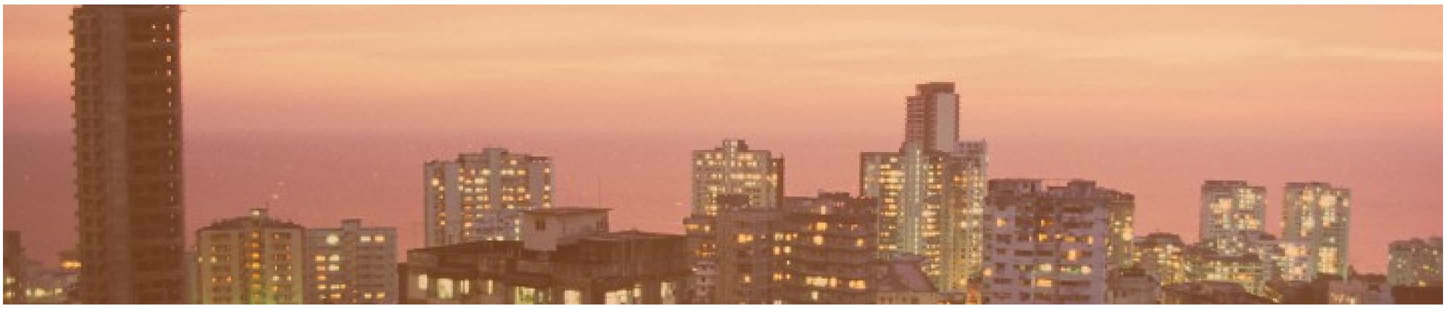
TOMORROW'S CHALLENGES



WHAT NEXT FOR INDIAN BUSINESSES?

CHOICES AND CHALLENGES IN FIGHTING FOR FUTURE GROWTH

By Thomas Malnight and Tracey Keys – September 2014

IMD
Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.org
www.imd.org

Indian companies can surely prosper and lead in the future – if they prepare themselves properly to do so. The opportunities and choices available to them have never been greater, owing to the country's position as a major BRICS market and the foothold this offers companies looking to expand into new areas and new markets. Because of this, how Indian firms navigate these opportunities has major implications not only for their future, but also for the entire shape of global competition in the years to come.

In recent years India's domestic market has expanded rapidly, as has its middle class. Many local companies are already leveraging this growth to move upmarket to access wealthier domestic customers, and many more are also now looking at where and how to expand internationally. At the same time, slowing economic growth in Europe and North America has long ago led companies based there to invest heavily in the high-growth BRICS markets. This competitive fight for growth markets is shaping future patterns of global competition and corporate strength.

The first choice: where should Indian companies seek future growth?
Indian companies seeking growth increasingly look at international expansion. They have two main options: focus on mature markets such as those in Europe or North America, or look to other high-growth markets such as Thailand and Indonesia, for example.

Some Indian companies have already taken the first path, seeking to become strong competitors in developed markets based on either their low-cost exports or specialized or technical expertise. This strategy has been supported by acquisitions to build scale, with Tata's 2008 purchase of Jaguar Land Rover being a good example.

This strategy presents a different set of challenges for Indian firms. Here they need to work out how to fight for growth through consolidation in markets that are experiencing very slow economic growth, but which are still both very large and highly competitive. Companies that take this approach also need to think hard about what value they add to the businesses they buy, beyond that of the acquisition itself.

The second option, which is being taken up by many business leaders in India and in other BRICS nations, is to sideline or avoid mature markets. They see little point in spending time and resources trying to enter slow-growth markets when there is much more opportunity closer to home. Instead, they are using strong domestic positions and their experience of operating in India as the foundation for expansion into other high-growth markets beyond the BRICS.

Success in "beyond the BRICS" markets
For an example of how successful this can be, look at The Godrej Group, a consumer goods multinational that is based in India and operates in 20 countries across Asia, Africa, and South America. Chairman Adi Godrej has ambitious growth plans predicated on a strategy that takes advantage of the natural fit between the group's businesses and the demands of many new high-growth markets.

"We find that, because of the nature of the Indian economy, we have developed good solutions over the years for these markets by building on our main businesses in consumer products," he told us. "Of course, we have other businesses, but our main focus is in branded consumer products that are suitable for, in C. K. Prahalad's words, 'the bottom of the pyramid' markets. We find we can compete in the developing world because our products work quite well there."

Describing the shape of global competition, he said: "While L'Oréal is the global leader in hair care, we are the leader in India, and in around 20 other countries in the world. And the markets where we are leading are all growth markets."

Part of The Godrej Group's success comes from designing products to meet local needs, rather than importing products designed for existing markets. "L'Oréal is a formidable competitor, but in addition to a L'Oréal-type product, we have a format that is very different from L'Oréal's. We developed a powder hair color in a sachet. It sells for about a tenth of the cost of the lowest-priced L'Oréal product. The consumer finds it very convenient. You mix the sachet with water and apply it. It is not as versatile, but it is our specialty."

Bajaj, the Indian automotive company, is taking a similar approach. In India it is moving upmarket in more advanced motorcycles and vehicles, while using its experience in its domestic market to sell cost-efficient vehicles such as tuk tuks into South East Asia. It is entirely possible that, once Bajaj has established a foothold in these new high-growth markets with cheaper products, the company will be able to grow upwards there too.

A third option: reinventing the business model

Owning the future is not simply a matter of geographical expansion. Indian companies are also looking at how they can reinvent their business models to pursue growth opportunities in India and beyond. One good example is provided by Anand Mahindra, who has rebuilt the industrial group he chairs so that it focuses on a clear purpose: to help individuals and communities rise. This is not about becoming a charity, but about allowing the firm to tap into the energy and opportunity created when businesses pursue both profit and purpose simultaneously.

“We follow three basic tenets—accepting no limits, thinking alternatively, and driving positive change in everything we do,” Mahindra told us. “These pillars guide all our actions and business decisions from deciding whether or not to enter a new field or planning a portfolio of services.” This approach has been a key driver of the company’s success, reflected in the dramatic rise in its stock price since 2002.

Sunil Bharti Mittal, the founder, chairman and Group CEO of Bharti Enterprises, expects that he will have to reinvent his telecommunications company so that it concentrates less on building telecom networks, or the “pipes” that enable connectivity, and more on creating value through the content that flows through them. “Looking ahead, I do not think we will be a telecommunications company, we’ll become a lifestyle company,” he says. “Our industry is changing. People are making fewer calls, they are having more internet sessions and doing more transacting over the internet. These are changes we need to adapt to.”

“Today the company has the mindset of a telecom company. But we need to build on our telecom infrastructure to become an internet company. Our mindset has to become more of an internet company, which needs to move fast and which needs to think out of the box. Traditional thinking in telecom companies is very different.”

Finally, a word of warning. While Indian business leaders are in an excellent position to expand their companies, preparing for long-term, sustainable success is not easy. They are likely to face particular challenges in building workforces with the skills, capabilities and mindset needed to support this growth, both in India and in new markets. And leaders themselves will need to recognize that they and their organizations are still relative newcomers to the challenges of operating multinationally.

Overcome these challenges, however, and the opportunities are there to be grasped.

Thomas Malnight is professor of strategy and general management at IMD. Tracey Keys is the director of Strategy Dynamics Global SA, a consultancy.

This article is based on Ready: The 3Rs of Preparing Your Organization for the Future, which they co-authored with Kees van der Graaf, a former senior Unilever executive who now holds a number of non-executive directorships. Thomas and Tracey are also the authors and publisher of www.GlobalTrends.com. Find out more about the book at www.3RsReady.com.

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